

Analysis of
Business
Trends Plus
Selected
Financial
Indicators

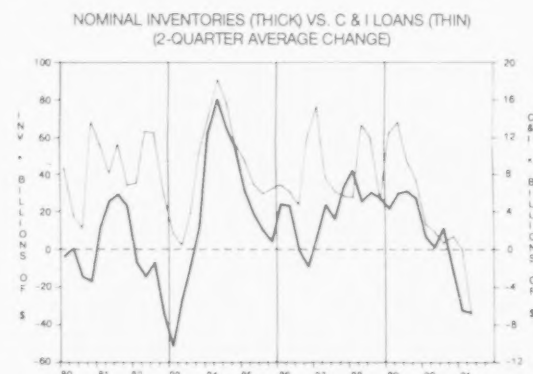
Pushing On A String?

Although the Federal Reserve's latest easing of monetary policy should provide a modest fillip for the sluggish business recovery now underway, the benefits of another one-quarter percentage point reduction in the Federal funds rate should not be exaggerated. For with today's business rebound threatened by such persistent impediments as a cautious, and employment-wary consumer, a nagging credit crunch, lethargic money supply growth and an acute financial pinch plaguing numerous state and local governments, small, carefully-measured doses of monetary relief may not be the panacea for an ailing economy that they have been in the past. Indeed, the Fed has already pushed the funds rate $4\frac{1}{2}$ percentage points lower over the past two years with an almost imperceptible impact, a result which raises deep-seated doubts as to whether or not the central bank finds itself "pushing on a string", using traditional remedies in an altogether different economic environment.

To be sure, the most recent batch of economic statistics suggests that the economy could use a bit of resuscitation. Although the basic framework of a modest manufacturing-led rebound is still intact, a good chunk of the rest of the economic landscape remains littered with the remnants of the past recession. Payroll employment growth was anemic last month, automobile sales buckled in August compared with July levels, housing starts and sales have exhibited little strength since last spring's spurt and even the rate of rise in industrial output, around which today's rebound pivots, slowed in August. On top of all this, the upturn in consumer confidence has plateaued, a hardly surprising development in light of the vigorous cost-cutting underway throughout corporate America, mounting layoffs in several large service industries and the weak pace of personal income growth.

While these trends do not by themselves indicate that the economy is about to again lapse into recession, they certainly do raise the specter of such an occurrence. But, the beneficial impact of further interest rate reductions may be muted. Take, for example, the consumer. When interest rates drop, almost all attention centers upon whether rates are now

sufficiently low to prompt households to quicken their purchases of such items as automobiles, homes and furniture, or whether the amount of interest expense relief will bolster the confidence of a debt-burdened consumer.



Sources: Commerce Department; Federal Reserve Board

Questionable Impact Of Lower Rates

However, lower interest rates cut two ways. Since households actually earn more than twice as much interest income as they pay out in interest expense, and the proportion of personal income derived from interest receipts stands at a near record, the downdraft in interest rates hurts as well as helps, hitting the consumer right in the wallet (Financial Digest—June 17, 1991). Nor is it a foregone conclusion that in today's economic environment consumers even have the inclination to step up borrowing and take advantage of lower interest rates. Layoffs have become commonplace throughout many industries, and job security is problematic for a growing number of households.

Equally uncertain are the effects of lower interest rates on business. The prevailing wisdom is that reduced borrowing costs will spark an upswing in business loan demand, fueling spending on inventories, equipment and jobs. But, the companion assumption is that lenders will be prepared to extend new credit, and herein lies the rub. Although interest rates have taken a dive, and total bank reserves—the wherewithal to lend—are now expanding at their fastest clip in four years, a principal feature of the current financial environment is the lethargic pace of short-term business borrowings and the ongoing run-off of commercial and industrial loans. These loans have shriveled by six

Manufacturers
Hanover
Economics
Department
17/270

percent over the past year, and the contraction of bank lending is being pointed to as the unmistakable footprint of an economy-hobbling credit "crunch".

One straightforward reason for the slowdown in business loan demand is better inventory management. Aided by the extensive use of computers, companies simply do not require excessive stocks on hand, nor the need to finance them. As shown in the chart, the easing of commercial and industrial loans outstanding closely coincides with the paring of inventories. In this sense, business efficiency has been enhanced, a clear plus for the economy. On

the other hand, the dearth of credit available to some segments of the economy is more troubling, and the remedy so far elusive.

Borrowing Blues

Credit crunch conditions in the past typically arose during periods of rising interest rates. Since deposit ceilings prevented banks from remaining yield competitive with investments outside the banking sector, the subsequent loss of funds resulted in tighter lending conditions. As interest rates declined, deposits returned to the banks and credit became more abundant. This time around, lower interest rates have done little to ameliorate credit tightness. This is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits \$100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/4/91)	184,220	- 1,038	- 26,940
New York City (9/11/91)	29,984	- 872	- 7,601
Commercial Paper (9/11/91)	528,692	+ 2,229	- 21,247

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/4/91)	299,868	+ 970	- 18,009
New York City (9/11/91)	53,881	- 682	- 4,480
Total Loans and Leases Gross Adjust			
	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/4/91)	1,017,763	+ 2,601	- 7,396
New York City (9/11/91)	168,390	- 3,495	- 14,347

Financial Markets

	Friday 9/20/91	Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bill†	5.31%	+ .02	- 2.27
180-Day Bill†	5.44	+ .04	- 2.29
Longest Bill†	5.54	+ .04	- 2.21
Recent Issues:			
6½s 8/31/93	6.12	- 0-	
7½s 8/31/96	7.07	- .02	
7½s 8/15/01	7.57	- .07	
8½s 8/15/21	7.89	- .05	
Municipals:			
Bond Buyer—20 Bond Index* (9/19/91)	6.78%	+ .03	- .63
Blue List Total (\$ Million)	\$1,383	+ \$ 301	+ \$ 171
30-Day Visible Supply (\$ Million)	\$3,737	+ \$ 958	+ \$2,020
Total	\$5,120	+ \$1,259	+ \$2,191
Corporates:			
Moody's Aa Composite (9/19/91)	8.85%	- .02	- .90
30-Day Visible Supply (\$ Million)	\$ 615	- \$ 660	- \$ 597
Stocks:			
Dow-Jones Averages:			
Industrials	3,019.23	+ 33.54	+506.85
Transportation	1,187.24	+ 4.59	+310.94
Utilities	208.18	+ 1.68	+ 6.47
65 Stocks	1,070.61	+ 9.22	+188.93
N.Y.S.E. Composite Index	212.98	+ 2.40	+ 41.95
N.Y.S.E. Avg. Daily Vol. for Week (000's)	186,848	+ 41,124	+37,458

*34% Taxable equivalent 10.27%.

† Bond equivalent.

International Rates

	Friday 9/20/91	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	5.25%	5.25%
1 month	5.44	5.38
3 month	5.44	5.44
6 month	5.63	5.56
1 year	5.81	5.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/20/91)	Currency Per U.S. \$	Week Ago
Belgium	34.93	34.70
Canada	1.1355	1.1357
France	5.7750	5.7350
Germany	1.6962	1.6826
Italy	1268.50	1260.20
Japan	134.75	133.73
Mexico	3055.40	3052.60
Netherlands	1.9105	1.8975
South Korea	723.68	726.24
Switzerland	1.4813	1.4749
Taiwan	26.32	26.26
U.K.*	1.7236	1.7335

*U.S. \$ per U.K. pound

	Change Since Week Ago	2/27/88
MH TRADE- WEIGHTED DOLLAR (9/20/91) (Adjusted for Inflation)	+0.3%	-10.9%

because today's crunch results not from a drain of bank deposits, but by the pinch on bank capital due to past lending mistakes. Since this is taking place at precisely the same time that bank regulators are imposing stricter capital standards, and bank earnings are squeezed, asset shrinkage has become the quickest path for repairing bank capital ratios.

Two noteworthy casualties have resulted from the capital/credit crunch. The first is employment. Since tighter credit has fallen the hardest on small- and medium-sized businesses which account for nearly 80 percent of all jobs nationwide, and which were responsible for virtually

all the new jobs created in the 1980s, employment growth has faltered. The second is money creation. Although weak M2 money supply growth probably overstates the threat to the recovery—especially as consumers take flight from low-yielding, small certificates of deposit, a component of M2—if there are any ill effects there is little the Fed can do about them. If lenders remain cautious, deposit growth suffers no matter how quickly interest rates are pushed lower. The regulatory environment, not monetary policy, needs to be altered and, until this quandry is resolved, the crunch will persist, as will the diminished influence of lower interest rates.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/18/91	\$ Change Since Week Ago Year Ago	
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	267.050	+ 2.824	+22.164
Loans to Depository Inst.	.862	+ .070	- .108
Float	.628	- .121	+ .234
Total Reserve Bank Credit	299.898	+ 3.040	+12.811
Treasury Deposits with			
Federal Reserve Banks	8.321	+ 2.512	+ .751
Currency in Circulation	294.980	- .877	+22.040
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	251.649	+ .167	+17.166
Member Bank Reserves:	9/18/91		
Total Reserves Held	52.174	+ 1.847	- 8.482
Excess (Deficiency)	.885	- .384	+ .139
Net Free Reserves	.153	- .327	+ .107
		% Change Since 3 Months Ago* Year Ago	
Monetary Aggregates †			
M1 (9/9/91)	866.7	+ 6.6	+ 6.0
M2 (9/9/91)	3,390.4	- 0.6	+ 2.3
M3 (9/9/91)	4,137.5	- 2.8	+ 1.1
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/20/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.31%	5.42%	5.51%
* Federal Agencies	5.30	5.45	5.66
* Municipal Notes—High Grade (34% Taxable Equivalent)	6.82	6.82	6.82
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.47	5.65	5.85
‡ Finance Company Paper—Prime		† Bankers' Acceptances	
5- 14 days	5.31%	Oct.	5.52%
15- 29 days	5.35	Nov.	5.42
30- 59 days	5.35	Dec.	5.36
60- 89 days	5.30	Jan.	5.52
90-179 days	5.37	Feb.	5.47
180-239 days	5.45	Mar.	5.45
240-270 days	5.45		
‡ Industrial Paper—Prime			
30- 89 days	5.40%	† Federal Funds	
90-120 days	5.40	Effective Rate	5.13%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	\$ 5,616	\$ 5,558	\$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	\$ 4,123	\$ 4,124	\$ 4,155
Percent Change, Annual Rate	2nd Q'91	- 0.1	- 2.8	+ 0.4
Change in Consumer Prices*	Aug '91 n	2.4%	2.4%	9.6%
Change in MH Cost of Living Index*	Aug '91 n	4.8%	1.2%	6.0%
Change in Producer Prices*	Aug '91 n	2.4%	- 2.4%	+ 13.2%
Civilian Employment (Thousands of Persons) †	Aug '91	116,416	116,712	117,690
Unemployment as % of Civilian Labor Force †	Aug '91	6.8%	6.8%	5.6%
Personal Income*	Jul '91	\$ 4,808	\$ 4,813	\$ 4,663
Leading Indicators Composite Index (1967=100) †	Jul '91	145.4	143.7	146.2
Industrial Production Index (1977=100) †	Aug '91 n	108.2	108.0r	110.5
Net Change in Consumer Installment Credit †	Jul '91 n	- \$ 0.84	- \$ 1.70r	+ \$ 2.39
U.S. Merchandise Trade Balance †	Jul '91 n	- \$ 5.90	- \$ 3.79r	- \$ 9.24
Plant and Equipment Expenditures*	4th Q'91	\$ 540.9(a)	\$ 539.5(a)	\$ 529.0
Private Housing Starts (Thousands of Units)*	Aug '91 n	1,065	1,059r	1,131
New Construction Expenditures*	Jul '91	\$ 404.9	\$ 398.7	\$ 453.1
Total Business Inventories †	Jul '91 n	\$ 804.5	\$ 807.1r	\$ 818.7r
Total Business Sales †	Jul '91 n	\$ 541.0	\$ 537.0r	\$ 541.8r

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure

r-Revised.

a-Anticipated.

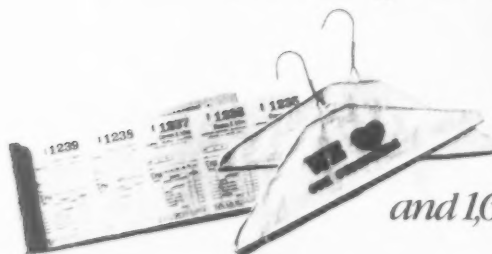


*Only New York has
52 Tie Manufacturers,*



279 Health Clubs,

987 Ad Agencies,



and 1,668 Dry Cleaners.

*And over 60,000 successful New York businesses
look to Manufacturers Hanover to help them grow.*

To make it in New York, you need the kind of bank that works right along with you every step of the way. And whether your business is big or small, Manufacturers Hanover Trust has the products and services to meet all your banking needs.

That means all the checking, credit and

investment opportunities any business looks for. What's more, we can customize services like cash management, investment banking, electronic (IPC) banking and international transactions to help you reach your own unique business goals.

Each day we work hand-in-hand with

every kind of business from Madison Avenue ad agencies to neighborhood dry cleaners. We find sound financial solutions that help their businesses grow. And now we'd like to do the same for you.

Manufacturers Hanover
Our Business is the Business of New York™

Member FDIC. © 1991 Manufacturers Hanover.



Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Manufacturers
Hanover

00463000024182 C 932 CONGR0001
CONGRESSIONAL INFO SERVICE
ATTN: CFI
4520 EAST-WEST HWY
BETESDA, MD 20814

**Financial
Digest**

